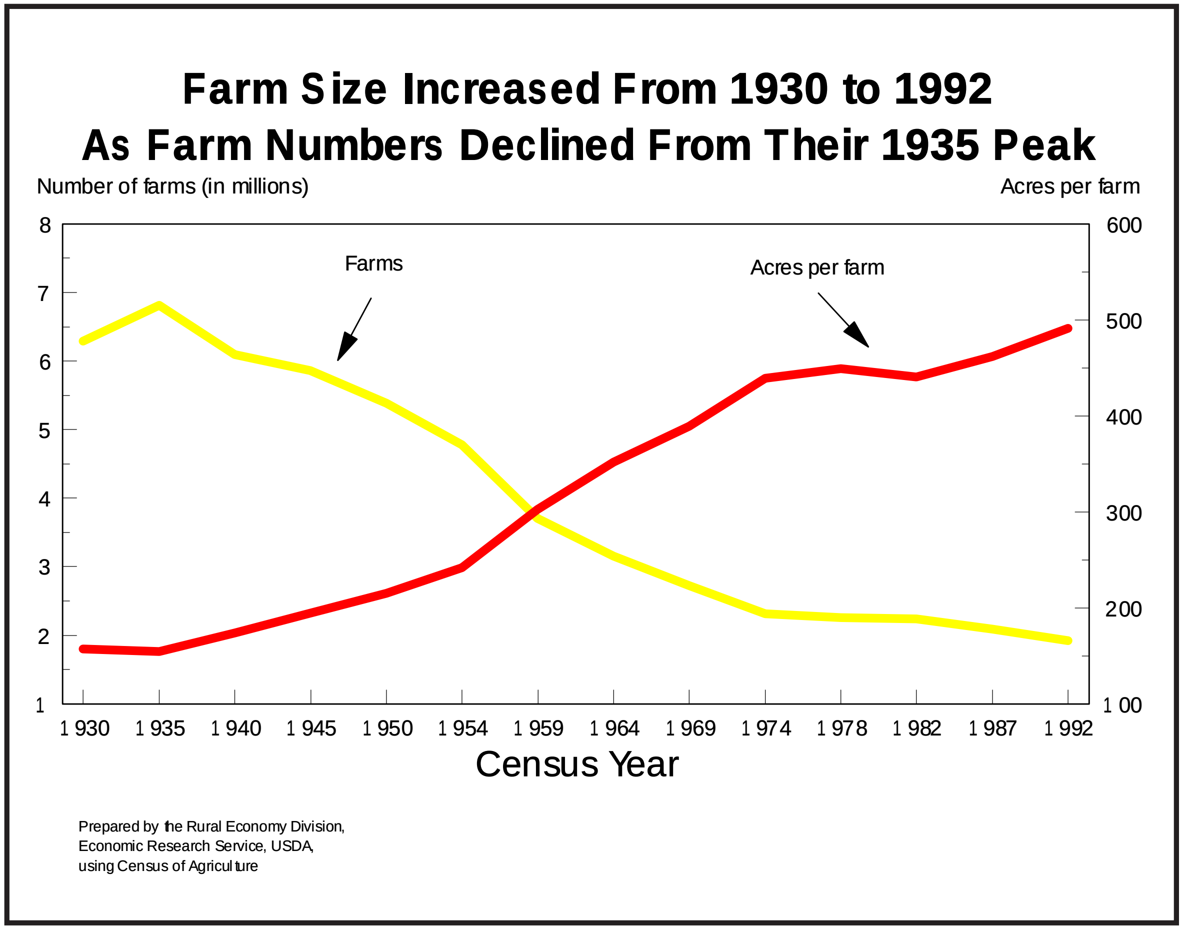
Farm Structure and Rural Economy

Summary

Farm numbers are expected to continue declining at about 2 percent a year for the rest of the decade, reaching 1.6 to 1.7 million by the year 2000. An increasing share of U.S. food and fiber is being produced on fewer farms, and farms have become more specialized.

Farm operator household income now equals that of all U.S. households. Farm households, on average, depend more on income from off-farm sources than from farming. Off-farm jobs are not necessarily in the food and fiber sector.

Natural resources (land, forests, water) are assuming new roles in the economy of many rural areas. The extractive value of natural resources is being eclipsed by the amenity value. Rural areas are increasingly viewed as desirable places in which to recreate, retire, and reside.



Farm Numbers Will Continue to Decline

- Farm numbers have declined from the high of 6.5 million in 1935 to about 2 million today. Fewer farms implies larger farms since land in farms has remained near 1 billion acres over the period.

- Farm numbers declined the fastest during the 1950s and early 1960s. Mechanization allowed for the substitution of capital for labor, improving labor productivity and favoring farm consolidation to achieve lower per unit production costs. Low farm incomes, few nonfarm job opportunities in rural areas, and readily available higher paying jobs in urban areas led to major migration of hired workers, sharecroppers, tenants, and operators of small marginal farms to urban America. Fewer farm youth entered farming resulting in an aging of the farm operator population.

- The "seeds" of the "rural turnaround" that occurred in the 1970s were actually sown during the 1950s as manufacturing firms began to shift production facilities out of urban areas. While rural nonfarm jobs were expanding, this job growth was insufficient to absorb workers leaving farming.

- Expanding rural nonfarm job opportunities gained steam during the 1960s and 1970s mitigating the out migration by facilitating part time farming. Off-farm income eventually contributed to narrowing the income gap between farm and nonfarm households. Strong entry of young farmers during the boom years of the late 1970s stabilized farm numbers for a short time, but lower entry since the 1980s farm crisis continued the decline.

- Farm numbers are expected to decline by about 2 percent or less annually for the rest of decade, reaching 1.6 to 1.7 million by 2000. The decline in farm numbers is not a threat to the Nation's food supply. Labor productivity on farms continues to increase. Younger farmers generally operate larger and more efficient farms than do older farmers whom they replace. Thus, fewer farmers can continue to produce the Nation's food and fiber.

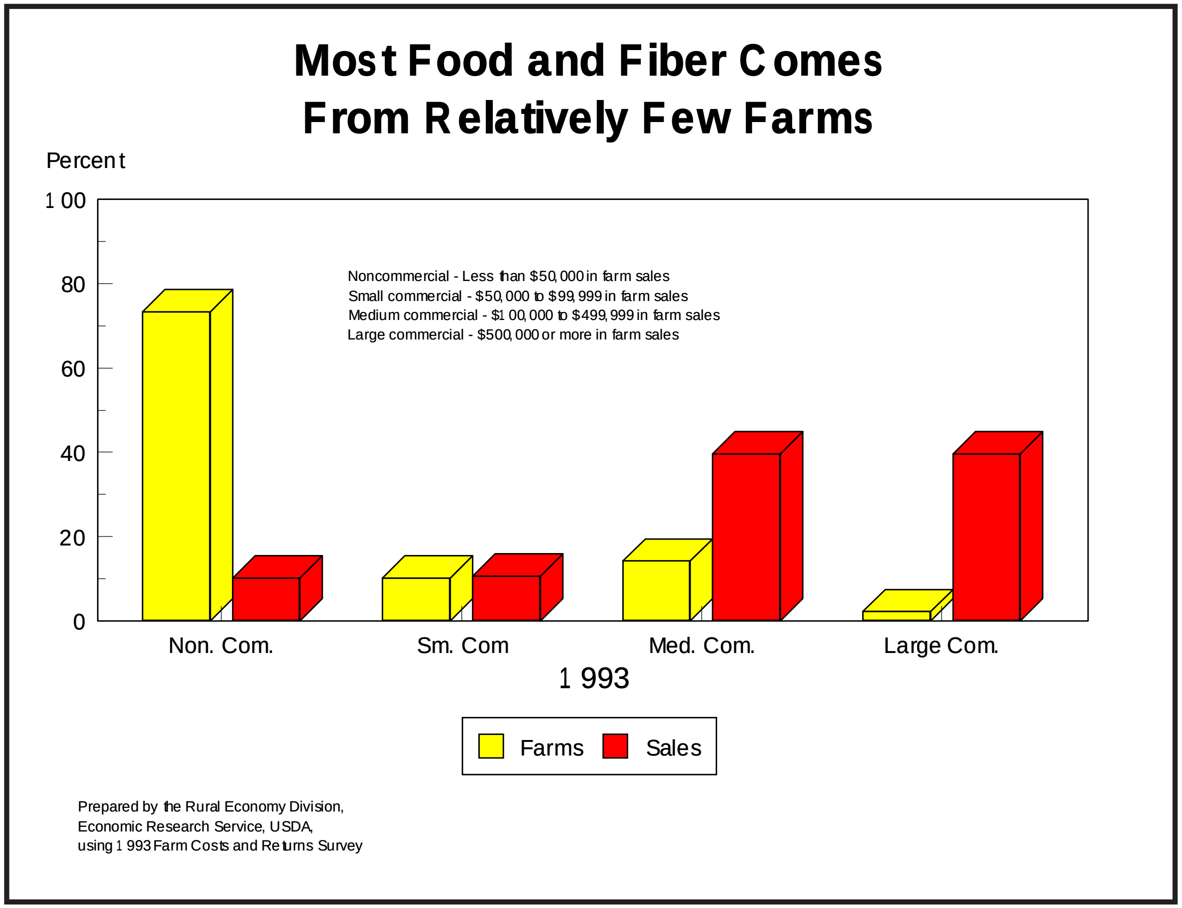
Fewer Farms Will Produce Most Food and Fiber

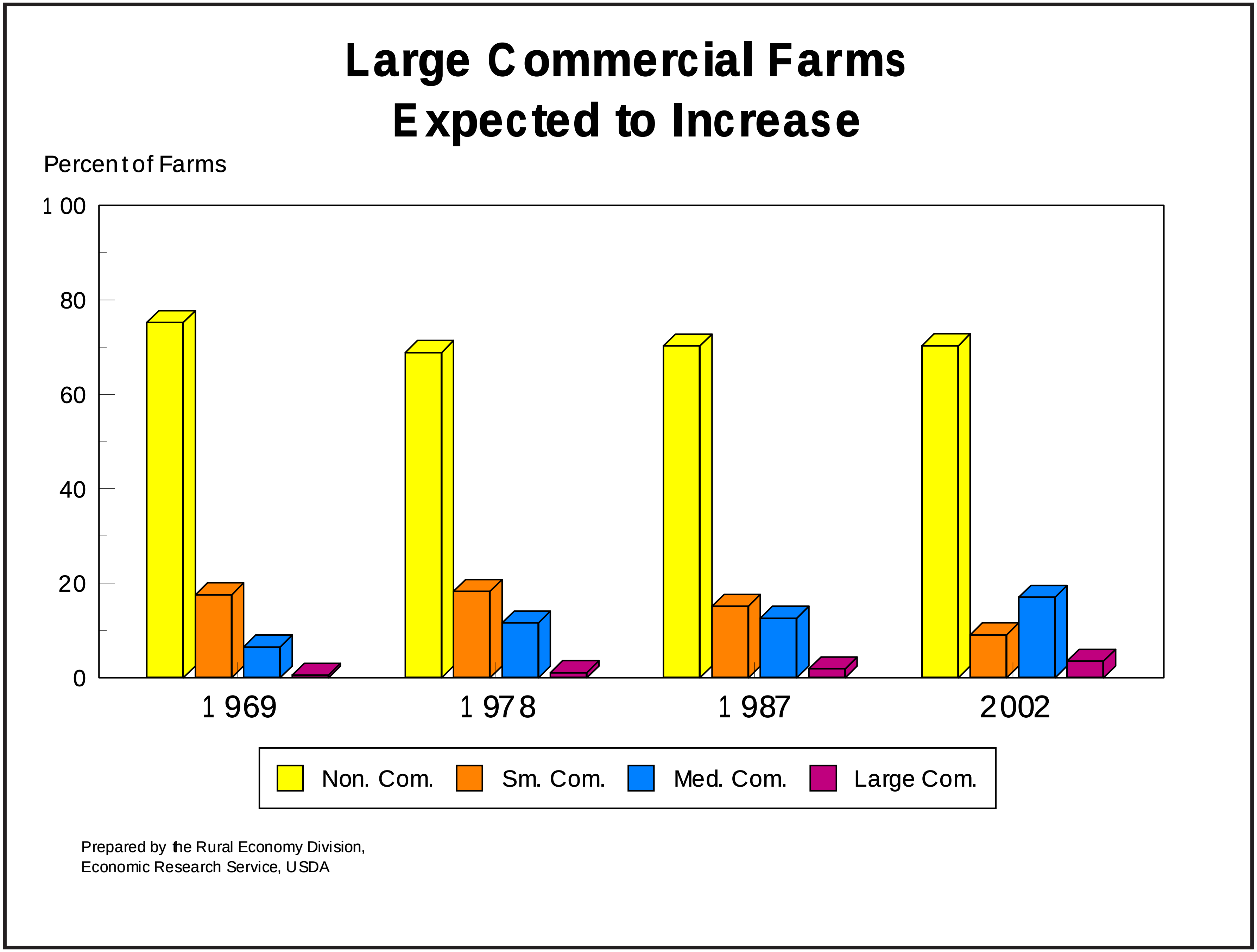
- An increasing share of U.S. food and fiber is being produced on fewer and fewer farms. In 1940, 11.6 percent of all farms (689 thousand) accounted for one-half of all sales of agricultural commodities from U.S. farms. By 1992, the proportion had dropped to 3.2 percent (62 thousand farms). [Source: Census of Agriculture]

- A recent profile of U.S. farms shows that 73 percent of all farms reported sales of less than $50,000. These non-commercial farms controlled 33 percent of all acres operated and 10 percent of total farm sales. In sharp contrast, about 39.6 percent of all sales came from 2.2 percent of farms. These large commercial farms have annual sales of $500,000 or more. [Source: 1993 USDA Farm Costs and Returns Survey]

- The trend towards increasing concentration of production among fewer farms is expected to continue into the 21st century. Large commercial farms are expected to increase in number and will likely be 3.5 percent of all farms by the end of the decade. The number of small commercial farms is expected to decline. Still, the farm sector is much less concentrated than are other sectors of the U.S. economy.

- While smaller farms are becoming less significant as producers of food and fiber, they are still important




Large Commercial Farms
Expected to Increase
Percent of Farms
100
80
60
40
20
0
1969
1978
1987
2002
Non. Com.
Sm. Com.
Med. Com.
Large Com.
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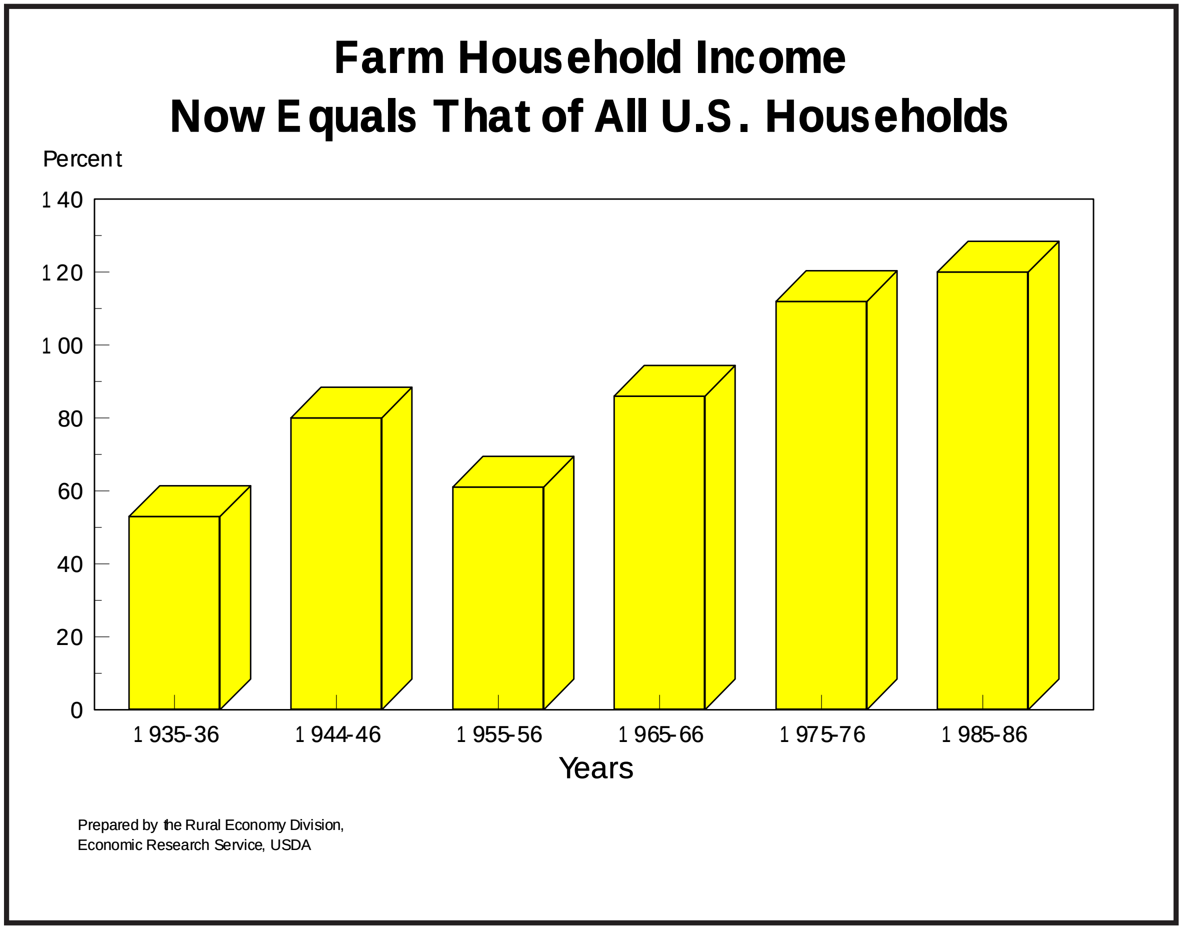
players in environmental and land use policies because they control a major share of U.S. farmland.

Farm Household Income Matches National Average

• Farm commodity programs were developed during a time when the average income of a farm households was about one-half that of all U.S. households. About 30 million people lived on farms in 1930, 24 percent of the total U.S. population and 56 percent of the rural population. Thus, efforts to raise farm family incomes would help ameliorate both U.S. and rural poverty.

• With the possible exception of the World War II period, this low relative income status persisted well into the 1960s. Farm households generally achieved income parity with all U.S. households during the 1970s and have remained that way, except for the early 1980s, ever since. Yet the general perception that farm families are relatively poor persists to this day.

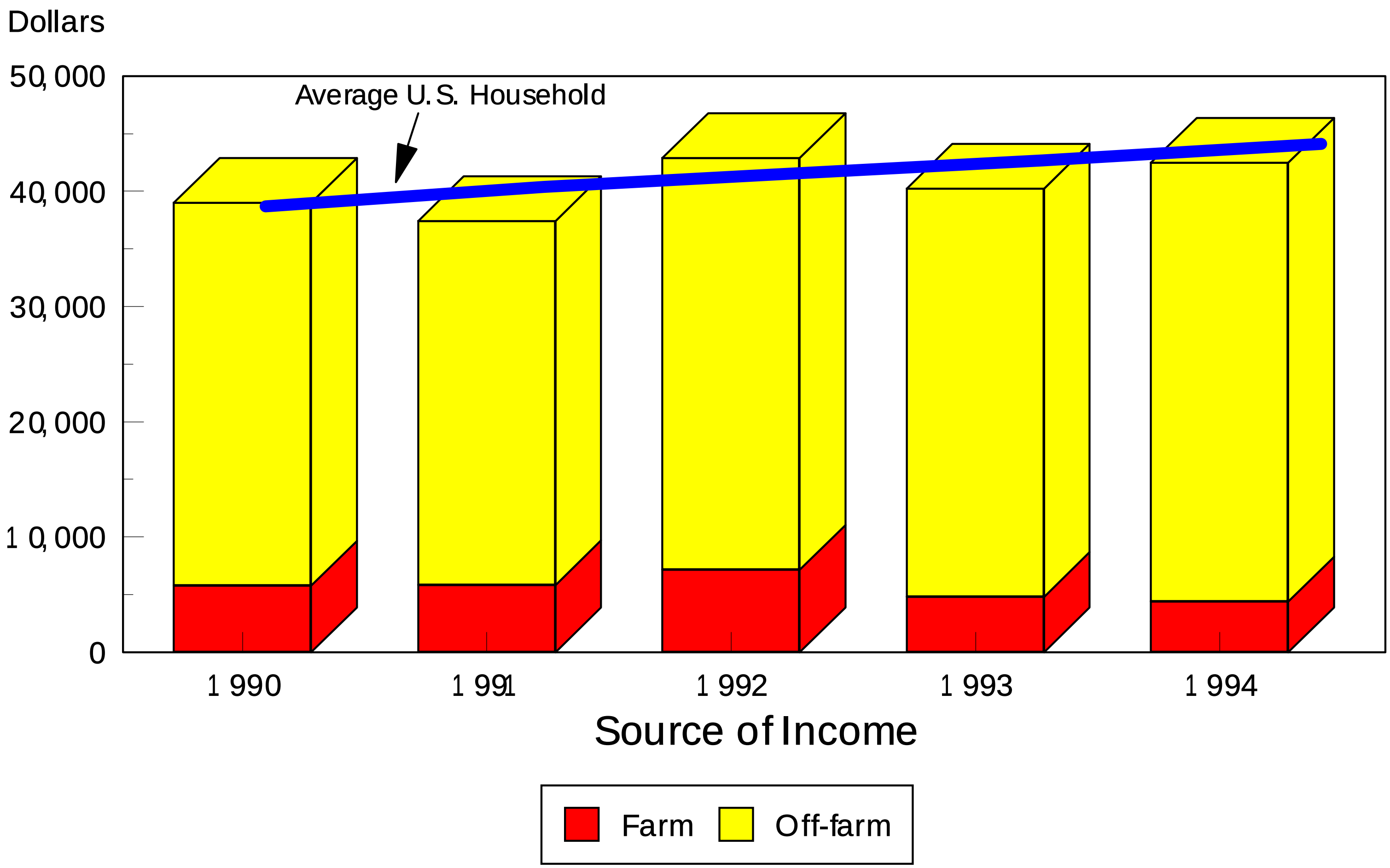
• Improved access to rural nonfarm jobs and income has played an important role in farm households achieving income parity. Farm households, on average, depend more on income from off-farm sources for family living than on income from farming. Farm households are not unlike the growing number of all U.S. households with two or more earners.



• The level and sources of household income vary by size of farm. Non-commercial farms depend exclusively on off-farm income as their farms typically lose money. Farm households operating very large farms report relatively high incomes, most of which comes from farming. The off-farm income of these households is also not dissimilar to that of most nonfarm households.

• The net worth of farm households exceeds that of all U.S. house-

Farm Operator Households and U.S. Households Have Similar Income Levels



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Economic Research Service, USDA,
using Farm Cost and Returns Survey and Current Population Survey

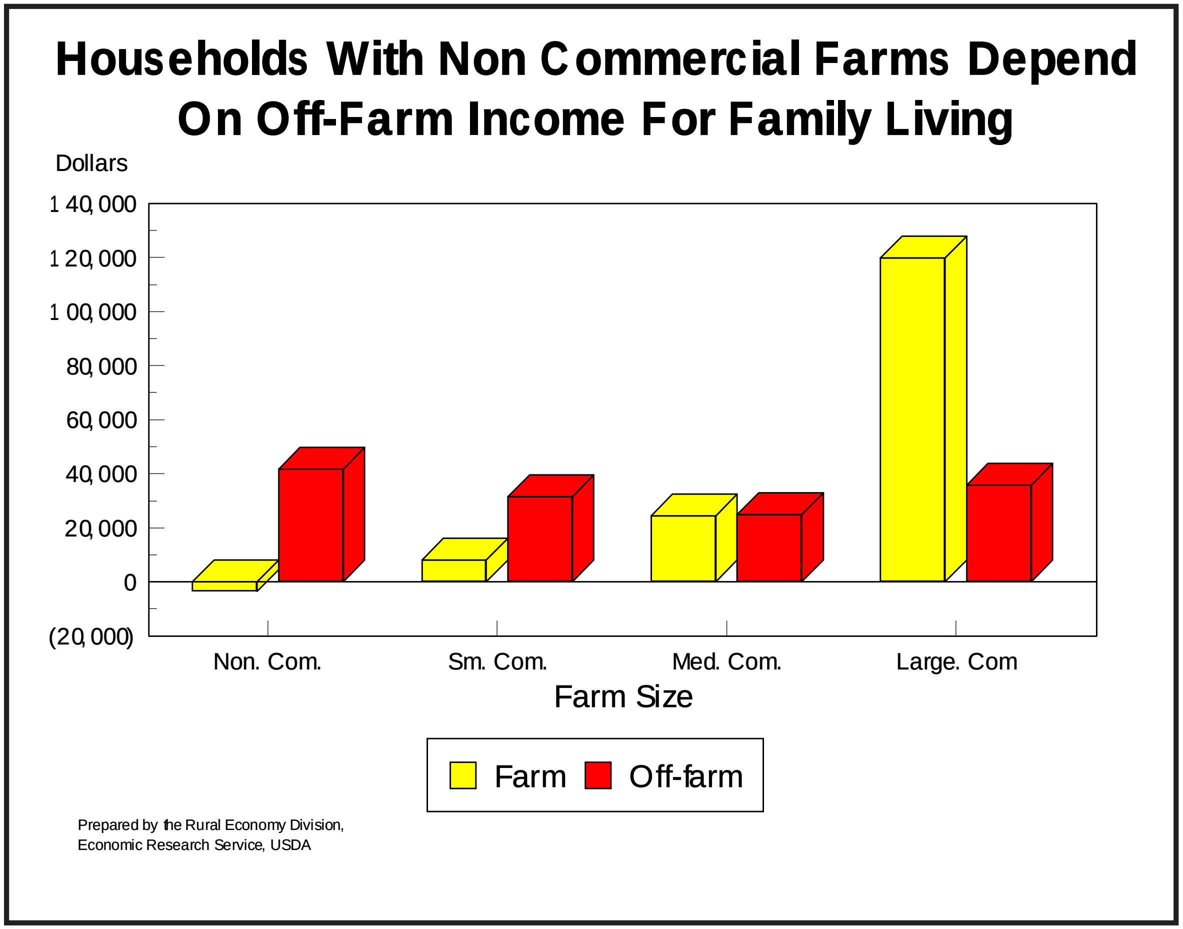
holds. ($334,900 for farm households versus $99,800 for all U.S. households in 1993.) But farming is a capital intensive business which requires substantial assets in order to generate average U.S. household income.

Food and fiber System Is Also Undergoing Structural Change

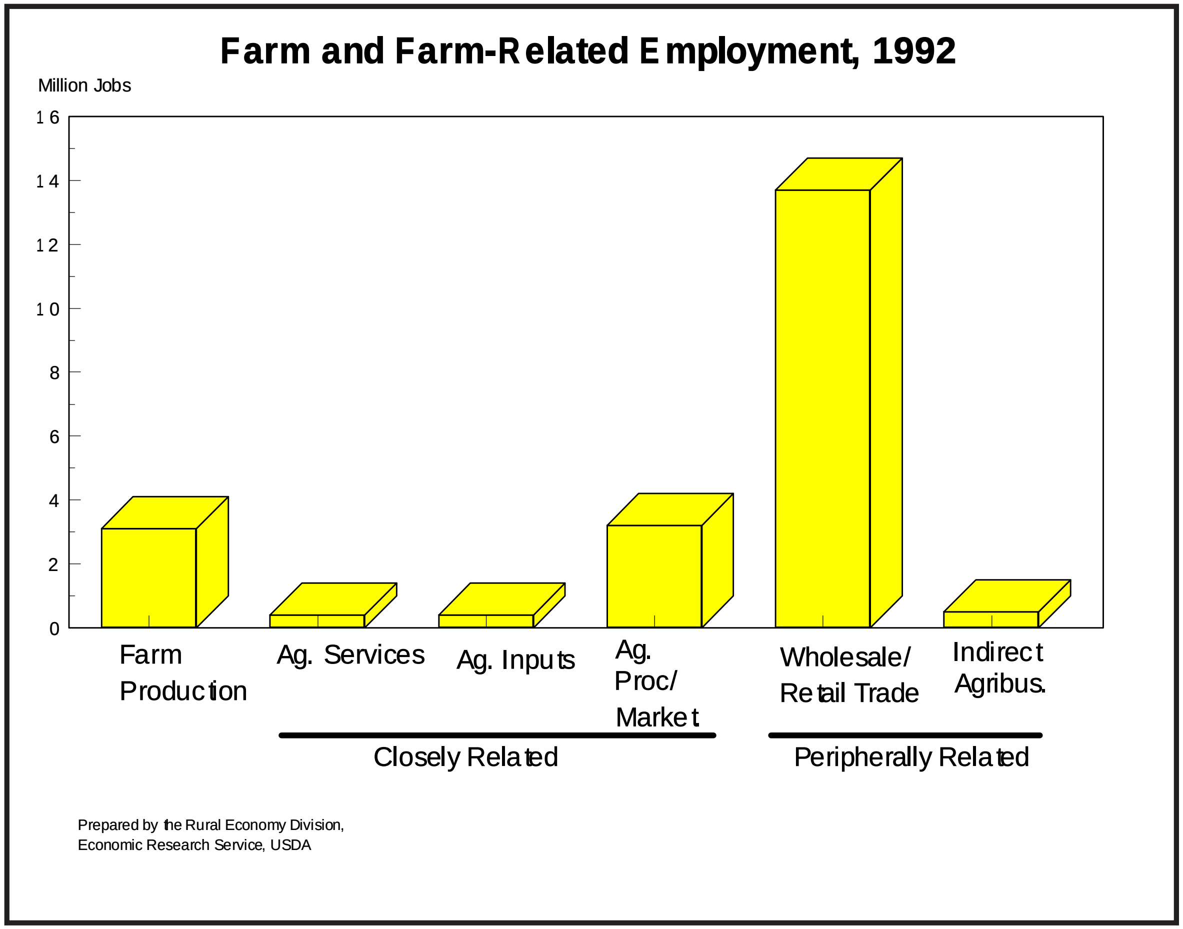
- There are about 21 million jobs in the U.S. economy (16 percent of all jobs) that involve growing, processing, and marketing the food that is consumed in the United States, exported to other countries, or imported from other countries. Jobs in farm production, agricultural. inputs, and processing and marketing have declined in recent years. Job growth has occurred in wholesale/retail trade, the component of the system that is closest to the consumer.

- The number of food processing and food retailing establishments has declined over the last 30 years but the number of restaurants has increased. This reflects consumers' increasing desire to eat away from home.

- Food processing establishments are increasing in size. The share of output supplied by all food processing plants with at least 500 employees increased from 28 percent in 1982 to 33 percent in 1992. Aggregate concentration is also increasing in the food processing industry. The share of sales accounted for by the top 20 firms increased from 23 percent in 1967 to 40 percent in 1987. But concentration varies widely among specific food processing industries. For example, the largest 4 firms account for only 24 percent of shipments in the ice cream and frozen desserts industry, while the top 4 firms in the cereal breakfast foods industry account for 85 percent of shipments.



- In food retailing, supermarkets now account for 76 percent of grocery



store sales, up from 59 percent in 1963. Even within the supermarket category, there has been a rapid shift to larger stores. Since 1980, the average size of supermarkets has increased from 23,000 to 35,000 square feet. Aggregate concentration in food retailing has been rising at a moderate rate. The share of sales accounted for by the top 20 food retailing firms increased from 34 percent in 1967 to 37 percent in 1987.

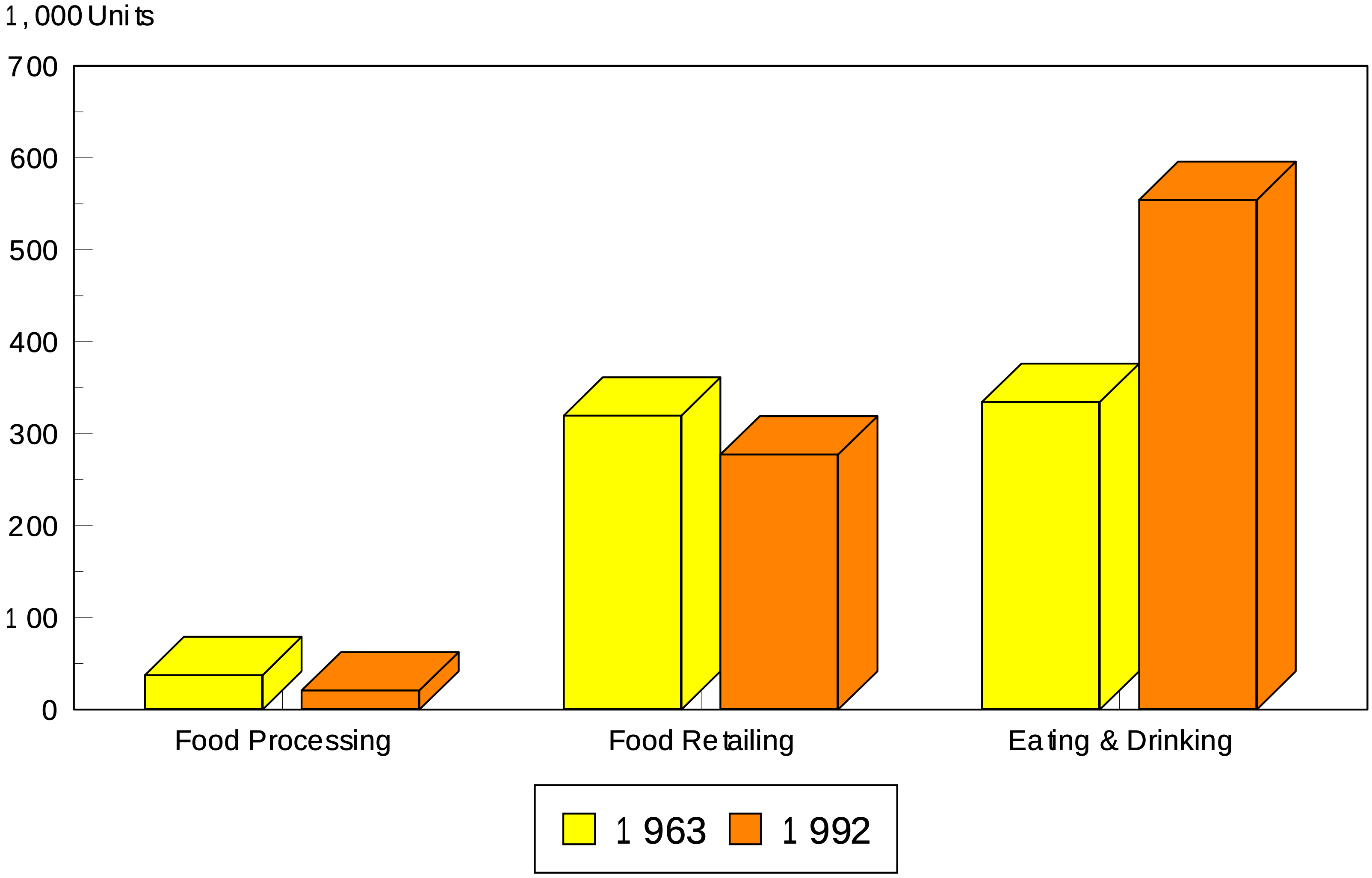
Farming No Longer Dominates Rural Economy

- The composition of the rural economy has changed since the inception of agricultural programs. Farming no longer dominates. This change can be illustrated in a variety of ways. In 1950, farming contributed 20 percent or more of total county earned income in over 2,000 U.S. counties. By the late 1980's, only 556 depended on farming for this level of earnings. These counties are geographically concentrated in the western Corn Belt and Plains States.

- Today's rural economies are more likely to be dominated by manufacturing, services, or government jobs than by jobs in farming. While farming provided over 14 percent of all rural jobs in 1969, that proportion dropped to about 7 percent by 1993. Recent job growth has occurred in the services sectors of the rural economy. Retirement and recreation activities are particular economic bright spots in the rural landscape. Many rural counties serve as residential areas for workers who commute to jobs in other counties.

- Nor are rural jobs associated with the food and fiber sector, those industries associated with processing and marketing farm commodities or providing inputs to farm production. Only about 20 to 23 percent of rural jobs are associated with the food and

Changes in Number of Establishments, 1963-92



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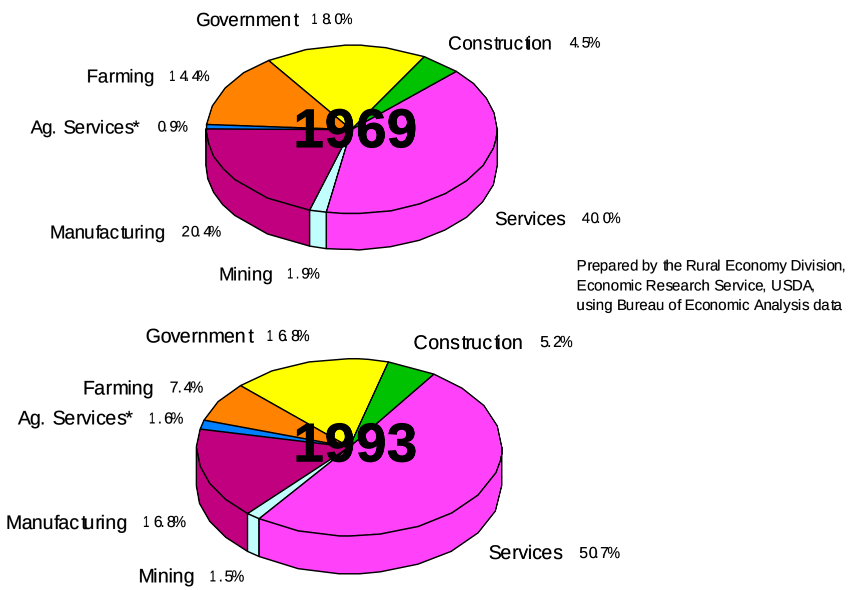
fiber sector. With the exception of farming, food and fiber sector jobs are more likely to be located in U.S. metropolitan areas, particularly jobs in wholesale and retail trade.

- Rural and small town areas exhibited a broad revival of population growth during the first half of the 1990's. Rural population rose 5.1 percent during 1990-95, nearly twice the rate of growth during the 1980's. About 1.3 million more people moved from metro America into rural and small town areas than moved in the opposite way -- a direction of net population flow contrary to that of any other time in the 20th century except for the 1970s and possibly the first half of the 1930s. During the 1980s, the net

Nonmetro Employment by Industry: 1969-1993



Suggested readings on characteristics of rural America...

USDA, Economic Research Service. *Understanding Rural America*, Agriculture Information Bulletin 710, February 1995.

USDA, Economic Research Service. *Credit in Rural America*, Agricultural Economic Report 749, April 1997.

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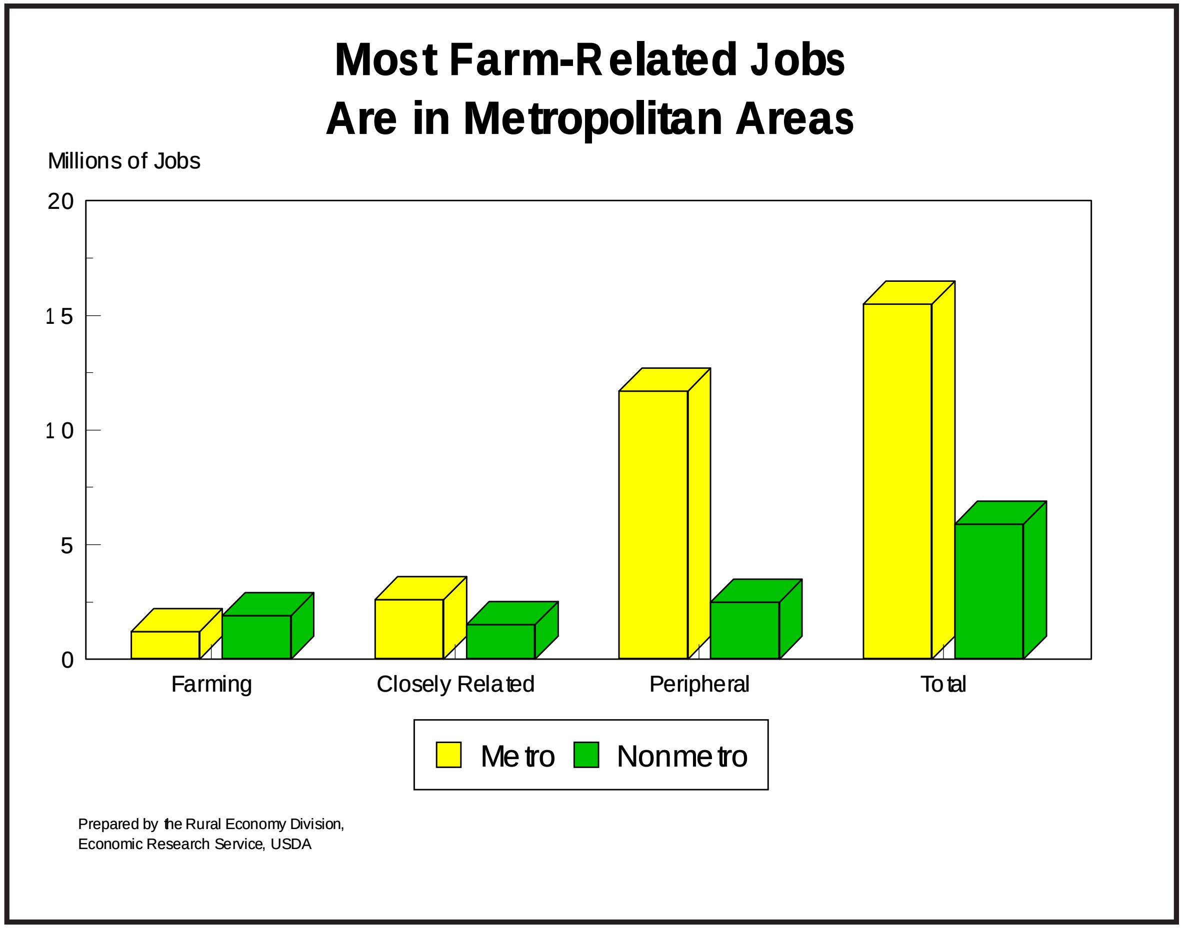
flow was in the opposite direction. Over 75 percent of nonmetro counties saw population growth in the 1990-95 period, up from 44 percent during the 1980s.

• Natural resources (land, timber, water) are performing a new role for many rural areas. Historically, natural resources have been important for their extractive value thereby providing jobs in farming, mining, and forestry products. But in the last two decades, the amenity value of natural resources has contributed to rural population and employment growth. For example, retirees are drawn to rural areas that are rich in scenic beauty and have a moderate climate thereby creating retirement-recreation based economies.



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